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Message Text

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INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04 SIL-01

L-03 H-02 PA-01 PRS-01 IO-10 NEA-10 /102 W
---------- 088186
P 110852Z NOV 75
FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 9313
INFO AMEMBASSY RANGOON PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 2/11/76
TAGS: EAID, EFIN
SUBJECT: PROPOSED ADB LOAN FOR JUTE MILL PROJECT (BURMA)

REF: STATE 265161

SUMMARY: ADB MANAGEMENT PROPOSES $25.3 MILLION EQUIVALENT LOAN FROM SPECIAL FUNDS TO BURMA TO FINANCE FOREX COST OF JUTE MILL WITH INSTALLED CAPACITY 14,500 TONS OF JUTE PRODUCTS PER YEAR; BERTHING FACILITIES ON NERBY RIVER TO FACILITATE LOADING/UNLOADING RAW JUTE AND JUTE PRODUCTS; RESIDENTIAL BUILDINGS FOR 220 PROJECT STAFF; A 1-5 KILO-METER ACCESS ROAD AND PROVISION OF THREE YEAR'S SUPPLY OF SPARE PARTS FOR MILL MACHINERY AND EQUIPMENT. USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC. R108-75 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN POUCHED ADDRESSEES NOV. 7. BOARD CONSIDERATION
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2. ADB MANAGEMENT PROPOSING $25.3 MILLION LOAN FROM SPECIAL FUNDS TO UNION OF BURMA. PROCEEDS WILL FINANCE FOREX COST OF SITE PREPARATION, CIVIL WORKS, BUILDING CONSTRUCTION, PROCUREMENT AND INSTALLATION OF MACHINERY AND EQUIPMENT FOR JUTE MILL OF 14,500 TONS ANNUAL OUT-PUT CAPACITY; OFFSITE FACILITIES INCLUDING A BERTHING JETTY, ACCESS ROADS AND STAFF RESIDENCES; CONSULTING SER-VICES. PROPOSED TERMS ARE 40 YEAR AMORIZATION INCLUD-ING 10 YEAR GRACE PERIOD, 1 PERCENT INTEREST. UNION OF BURMA TO BE BORROWER, TEXTILE INDUSTRIES CORPORATION (TIC) TO BE EXECUTING AGENCY.

3. BURMA'S SECOND 4-YEAR PLAN (1974/75 TO 1977/78) ACCORDS JUTE DEVELOPMENT HIGH PRIORITY WITH TARGET OF INCREASE IN TOTAL RAW JUTE PROJECTION OF 116,000 TONS ANNUALLY BY 1977/78 (FROM 78,000 TONS PRODUCED 1973/74). IN 1973/74, COUNTRY'S ONLY EXISTING JUTE MILL (OKKYIN) OROCESSED 20,000 TONS INTO JUTE GOODS FOR DOMESTIC CON-SUMPTION, WITH BALANCE OF RAW JUTE BEING EXPORTED AND EARNING $11 MILLION FOREX. HOWEVER, DOMESTIC DEMAND IS 22,000 TONS HIGHER THAN OKKYIN CAPACITY, WHICH IF MET BY IMPORTS WOULD COST OVER $14 MILLION FOREX AN-NUALLY.

4. DOMESTIC DEMAND FOR JUTE PRODUCTS IS SUPPRESSED WITH RESULT OF CONTRIBUTING TO LOSSES IN BAGGING OF RICE AND PADDY, OTHER FOOD CROPS, ON ORDER SEVERAL HUNDRED/THOU-SAND TONS/YEAR, ATTRIBUTED TO LEAKAGE FROM OVER-USED JUTE BAGS. ALSO CRITICAL SHORTAGE JUTE BAGS HAS STIMU-LATED SMUGGLING AND BLACKMARKET SALES OF BAGS WITH CONSEQUENT REVENUE LOSSES TO GOVT.

5. 75 PERCENT OF JUTE GROWN IN BURMA IS IN IRRAWADDY DELTA AREA WHERE PROJECT LOCATED, MOSTLY CULTIVATED AS PRE-MONSOON CROP SOWN DURING FEB/MARCH DRY SEASON PERMIT-TING PADDY CULTIVATION AFTER JUTE HARVEST. SINCE GOVT CONTROLS PRICES OF BOTH RICE AND JUTE, IT IS ABLE TO AD-JUST JUTE PRICES TO PROVIDE INCENTIVES TO FARMERS TO BOTH ENCOURAGE PROJECTION AND IMPROVE QUALITY.
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6. AGRICULTURE CORPORATION (AC) OF MINISTRY OF AGRICUL-TURE AND FORESTS PROVIDES SUBSIDIZED FERTILIZER, PESTI-CIDES AND HIGH YIELDING VARIETY (HVY) SEEDS AT COST, LEASES TRACTORS AND PUMPS, AND SUPPLIES PRODUCTION CREDIT THROUGH VARIOUS ADVANCE PURCHASE SCHEMES. GOVT WITH IDA ASSISTANCE UNDER SECOND PLAN IS IMPLEMENTING IRRIGA-TION PROJECT IN PROJECT AREA IN IRRAWADDY DELTA; ALSO

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GOVT ESTABLISHING FOUR JUTE BALING PLANTS EACH WITH
7,000 TON/YEAR CAPACITY.

7. ANNUAL PROJECTION OF RAW JUTE HAS RANGED ABOUT
60,000 TONS ANNUALLY, WITH 20,000TONS USED DOMESTICAL-
LY AND 40,000 TONS EXPORTED. PROPOSED PROJECT WOULD USE
ABOUT 16,000 TONS RAW JUTE PER YEAR. DOMESTIC DEMAND
FOR JUTE PROJECTS IS SEVERELY SUPPRESSED, WITH ONLY
AVAILABLE SOURCE FOR BAGS, HESSIAN CLOTH AND TWINE PRO-
DUCTS OKKYIN JUTE MILL, UNABLE FULLY SUPPLY DOMESTIC RE-
QUIREMENTS. SHORTFALL MET BY IMPORTS AND BY RECYCLING
USED BAGS. APART FROM OFFICIAL IMPORTS, SIGNIFICANT
QUANTITY OF JUTE BAGS ARE SMUGGLED INTO BURMA, AND BLACK-
MARKET EXISTS FOR JUTE BAGS AT DOUBLE GOVT-CONTROLLED
PRICE AND 30 PERCENT HIGHER THAN CIF RANGOON PRICE FOR
BAGS LEGALLY IMPORTED. INCREASED SUPPLY OF BAGS FROM
PROJECT WOULD AVERT LOSSES AND WASTAGE RICE AND OTHER
FOOD CROPS, AND WOULD EFFECT FOREX SAVINGS BY REDUCING
REQUIREMENT FOR IMPORT OF JUTE PRODUCTS.

8. PROJECT COMPRISED OF 14,500 TON ANNUAL CAPACITY
JUTE MILL CAPABLE PRODUCING 15 MILLION JUTE BAGS, 5
MILLION YARDS HESSIAN CLOTH AND 500,000 LBS. OF TWINE;
CONSTRUCTING BERTHING JETTY ON BANK OF NEARBY NAVIGABLE
MYAUNGMYA RIVER FOR LOADING/UNLOADING; CONSTRUCTION
OF RESIDENTIAL BUILDINGS AND UTILITIES TO ACCOMODATE
220 STAFF; 1.5 KILOMETERS ACCESS ROAD AND CONSULTING
SERVICES IN PREVENTIVE MAINTENANCE AND QUALITY CONTROL.
TOTAL COST ESTIMATED AT $43.3 MILLION OF WHICH $25.3
MILLION FOREX. FOREX ALLOCATION, INCLUDING 19 PERCENT
CONTINGENCY, COVERS SUPPLY OF MACHINERY AND EQUIPMENT
($20,498,000); ERECTION AND INSTALLATIN ($230,000);
BUILDINGS ($250,000); SITE PREPARATION, UTILITIES AND
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CONSULTING SERVICES ($150,000); AND PHYSICAL AND PRICE
CONTINGENCIES ($4,166,000). GOVT ASSURES (LOAN AGMT,
SECT 4.02 AND SIDE LTR NO. 4, PARA 18) IT WILL PROVIDE
IN TIMELY FASHION $18 MILLION LOCAL CURRENCY (LC) EQUIV.
THRU GOVT EQUITY PARTICIPATION ($12.3 MILLION EQUIV);
AND INTEREST-FREE LONG TERM LOAN FOR CAPITAL INVESTMENT
($5.7 MILLION EQUIV) AND PROVISION OF WORKING CAPITAL
CREDIT AT 12 PERCENT INTEREST RATE ($2.3 MILLION EQUIV).

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L-03 H-02 PA-01 PRS-01 IO-10 NEA-10 /102 W
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P 110852Z NOV 75
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9. TIC, EXECUTING AGENCY, ONE OF EIGHT STATE CORPORATIONS UNDER AEGIS OF MINISTRY OF NO. 1 (LIGHT) INDUSTRY, OPERATES 56 STATE-OWNED MILLS AND FACTORIES MAKING COTTON AND JUTE PRODUCTS, INCLUDING LARGE (40,000 SPINDLE) NEW AND EXPANDED TEXTILE MILL. BANK CONSIDERS TIC EXPERIENCED CORPORATION WITH STAFF KNOWLEDGEABLE IN MANAGEMENT, ENGINEERING AND ACCOUNTING PRACTICES, DEEMED CAPABLE IMPLEMENTING PROJECT. TIC WILL APPOINT PROJECT DIRECTOR AND UNLIKE OTHER MINISTRY NO. 1 CORPORATIONS WHO ARE MONITORED AND QUIDED BY THE MINISTRY'S INDUSTRIAL PLANNING CORPORATION, TIC WILL ASSUME AND RETAIN AUTHORITY AND RESPONSIBILITY FOR ALL PROJECT ASPECTS. TIC AGREES ESTABLISH STAFF TRAINING PROGRAM IN OPERATIONS AND MAINTENANCE, SAFETY AND SUPERVISION, ALSO, EQUIPMENT SUPPLIER WILL BE REQUIRED PROVIDE 200 MAN/MOS TRAINING IN ITS FACTORY TO 25 TIC STAFF (SIDE LTR. NO. 2, PARA 6(B)).

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10. PROCURMENT TO BE IN ACCORD BANK'S QUIDELINES WITH

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BIDS PACKAGED TO MAXIMIZE INTERNATIONAL COMPETITIVE BIDDING. FACTORY MACHINERY TO BE IN TWO MAIN GROUPS. ONE GROUP FOR DESIGN/SUPPLY/INSTALLATION OF EQUIPMENT FOR BATCHING, CARDING, SPINNING AND WINDING DEPARTMENTS; OTHER GROUP FOR EQUIPMENT FOR WEAVING AND FINISHING DEPARTMENTS. SUPPLY CONTRACTS FOR LESS THAN $100,000 EQUIV TO BE ON BASIS INT'L SHOPPING. ALL PROCESSING EQUIPMENT SUPPLIERS MUST INCLUDE IN TENDER SPARE PARTS FOR 3 YEAR'S OPERATION. ALSO, TENDER DOCS WILL STIPULATE THAT SUPPLIERS PERMIT TIC'S ENGINEERS AND TECHNICIANS PARTICIPATE IN MACHINERY INSTALLATION AND BE OBLIGED TAKE ACCOUNT OF TIC'S VIEWS IN ENGINEERING DESIGN TO AVERT OVER-DESIGNED OR TOO TECHNICAL AN INSTALLATION. CIVIL WORKS FOR SITE PREPARATION AND BUILDING CONSTRUCTION WILL BE DONE BY STATE CONSTRUCTION CORPORATION, FOR BERTHING FACILITIES BY STATE PORT CORPORATION. IMPORTED CONSTRUCTION MATERIALS (I.E., REBAR, STRUCTURAL STEEL, PIPES, FITTINGS, ETC.) ESTIMATED TO COST $325,000 WILL BE FINANCED BY BANK LOAN, PROCURED UNDER COMPETITIVE BIDDING GUIDELINES.

11. IN ADDITION TO STAFF TRAINING BEING PROVIDED BY EQUIPMENT SUPPLIER (SEE PARA 9 ABOVE), 5 MAN/MONTHS OF CONSULTING SERVICES IN PREVENTIVE MAINTENANCE AND QUALITY CONTROL WILL BE NEEDED. CONSULTANT TO BE SELECTED IN ACCORD BANK'S GUIDELINES.

12. COMPLETION OF MAJOR CONSTRUCTION AND INSTALLATION SCHEDULED BY JUNE 1978, WITH PERFORMANCE TESTING OF PROCESSING MACHINERY TO START JANUARY 1979. UNDER ANOTHER ADB-FINANCED PROJECT (SEE SEPTEL), GOVT ELECTRIC POWER CORPORATION (EPC) PROVIDING 11 KV TRANSMISSION LINE AND 8MV, 11 KV/6.6 KV POWER TRANSFORMER SUBSTATION BY END 1978 TO ASSURE TIMELY AND ADEQUATE POWER REQUIRED BY PROJECT.

13. PROJECT CONSIDERED TECHNICALLY FEASIBLE, FINANCIALLY VIABLE AND ECONOMICALLY JUSTIFIED. GOVT AGREES TO SET AND MAINTAIN EX-FACTORY COST OF JUTE PROJECTS MADE BY MILL AT LEVEL SUFFICIENT ASSURE DEBT SERVICE COVERAGE
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RATION NOT LESS THAN 1.5 TIMES; WILL PROVIDE AND MAINTAIN MILL CAPITAL STRUCTURE SUCH THAT SATISFACTORY LONG-TERM DEBT EQUITY RATION OF 70:30 WILL BE ATTAINED AT START-UP COMMERCIAL OPERATIONS, IMPROVING TO 60:40 WITHIN 5 YEARS. FINANCIAL INTERNAL RATE OF RETURN ESTIMATED AT ACCEPTABLE 14.9 PERCENT, HOWEVER, THIS IRR VERY SENSITIVE TO CHANGES IN SALES PRICES. ALSO BANK CONSIDERS OFFICIAL EXCHANGE RATE (6.5 KYATS

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PER US DOLLAR) FOR LC OVER-VALUES KYAT, SO IN CALCU-
LATION OF ECONOMIC RATE OF RETURN FOR PROJECT, SHADOW
RATE OF KYAT 15 EQUALS $1 WAS USED. ON BASIS
INCREMENTAL PRODUCTION, PROJECT ESTIMATED TO SAVE $10
MILLION FOREX/YEAR OR ABOUT $150 MILLION OVER 15-YEAR
LIFE OF PROJECT. ECONOMIC RATE OF RETURN CLACU-
LATED AT 16.7 PERCENT. ESTIMATED 2000 NEW JOBS TO
BE GENERATED BY PROJECT.

14. WITH RESPECT TO POINTS RAISED REFTEL, USADB SOME-
WHAT SURPRISED AT ISSUE BEING RAISED AT THIS TIME(REFTEL
RECEIVED MANILA NOV. 10, 1975) SINCE SUBJECT PROJECT HAS
BEEN LISTED SINCE JULY 1974 IN BANK'S MONTHLY OPERATION-
AL INFORMATION AS LOAN PROJECT UNDER CONSIDERATION. AS
NOTED IN DISCUSSION ABOVE, ESPECIALLY PARAS 4 AND
7, RATIONALE OF PROPOSED PROJECT IS BASED ON UTILIZATION
EXISTING RAW JUTE PRODUCTION TO MEET CRITICAL DOMESTIC
NEED FOR BAGGING OF LARGELY FOOD CROPS TO AVERT WASTAGE,
PLUS OTHER AGRICULTURAL AND INDUSTRIAL USES. ALSO,
THERE APPEARS TO BE SOME QUESTION WHETHER THE ESTIMATED
DECLINE IN WORLD MARKET PRICES OF JUTE BAGS CITED REFTEL
AND BASED UPON A JULY 1973 IBRD STUDY REMAINS VALID.

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L-03 H-02 PA-01 PRS-01 IO-10 NEA-10 /102 W
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P 110852Z NOV 75
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EMPIRICAL DATA NOTED IN THE ADB APPRAISAL DOCUMENT CITES 1975 JUTE PRICE EX-CHITTAGONG/CHALNA DURING FIRST HALF OF 1975 AT $490 PER METRIC TON RANGE, AN AMOUNT 66 PERCENT ABOVE 1967-1974 AVERAGE. A MORE RECENT IBRD FORECAST CITED BY THE BANK IN THE PROJECT APPRAISAL IS REPORTE NO. 814 TITLED "PRICE FORECASTS FOR MAJOR AND PRIMARY COMMODITIES" AND DATED JULY 1975. TABLE 13 IN THIS REPORT (GOVEN AS AN APPENDIX IN ADB DOCUMENT) SHOWS JUTE PRICES AFTER A 1976 SLUMP TO $460, RECOVERING TO 485 BY 1977, $512 BY 1978, $590 BY 1980 AND 825 PER METRIC TON BY 1985. EVIDENCE OF SUPPRESSED DOMESTIC DEMAND IS SUCH THAT BLACK MARKET PRICES FOR JUTE BAGS IN BURMA CURRENTLY ARE DOUBLE PRESENT STATE-FIXED PRICES (AND 30 PERCENT HIGHER THAN ESTIMATED CIF RANGOON PRICES), USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION. REQUEST U.S. MISION RANGOON COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD. 3 JULY 1972.
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Draft Date: 11 NOV 1975
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Disposition Approved on Date:
Disposition Authority: greeneet
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ISecure: 1
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